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# Indonesia

# Oilseeds and Products Update

# 2013

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**Report Highlights:**

Post predicts that Indonesian crude palm oil (CPO) production will total upwards of 28 million metric ton (MMT) in marketing year (MY) 2012/2013, an increase of 2.1 million metric MMT over the previous MY. However, several yet-to-be-seen factors may result in lower-than-predicted production levels.

A recent trend in harvested areas suggests that soybean production will decline in MY 2012/2013. However, Post will maintain its production estimates at 620,000 metric tons (MT) due to probable Government of Indonesia (GOI) policy initiatives that will encourage production incentives for soybean farmers.

**Post:**
Jakarta

Oil, Palm

**Production**

Indonesian CPO production is expected to total 28 MMT in MY 2012/2013 – a 2.1 MMT increase over MY 2011/2012. Post, however, has identified several factors which may result in lower-than-predicted production levels in the current marketing year.

*Unprocessed palm fruits*

Sources close to Post have reported that smallholder planters at some provinces in Sumatra and Kalimantan have been unable to sell their palm fruits to palm oil mills since September 2012. According to sources, the planters have no other choice but to leave fruits unprocessed and/or fresh fruit bunches unharvested. Abandoned palm fruits are expected to cut CPO production in MY 2012/2013. The downward trend of CPO prices since early 2012 has triggered exporters to maintain stocks and wait for better prices. Consequently, palm oil millers are experiencing longer-than-normal CPO's inventory turnover. This leads mills to stop additional palm fruit processing until they can move their CPO stocks to the ports.

*Possible big replanting program in 2013*

Post contacts indicate that state owned and private oil palm plantations expect to implement large-scale replanting initiatives in 2013. The replanting is expected to impact up to 500,000 hectares. Should the replanting program be accomplished in 2013, Indonesia could see a significant decrease (possibly as much as 2.0 MMT) reduction of CPO from its supply chain.

While the aforementioned factors are likely to impact future Indonesian palm oil output, Post needs to conduct additional research to better assess the situation. Therefore, Post will maintain its current estimates of Indonesian CPO production at 28 MMT in MY 2012/2013. Post will revise this number as the on-the-ground situation becomes clearer.

**Consumption**

Post predicts that palm oil-based food consumption will grow by 9.5 percent from 4.7 to 5.15 MMT in MY 2012/2013. After including industrial and feed use, Post expects that Indonesia will consume 7.87 MMT of palm oil products in MY 2012/2013.

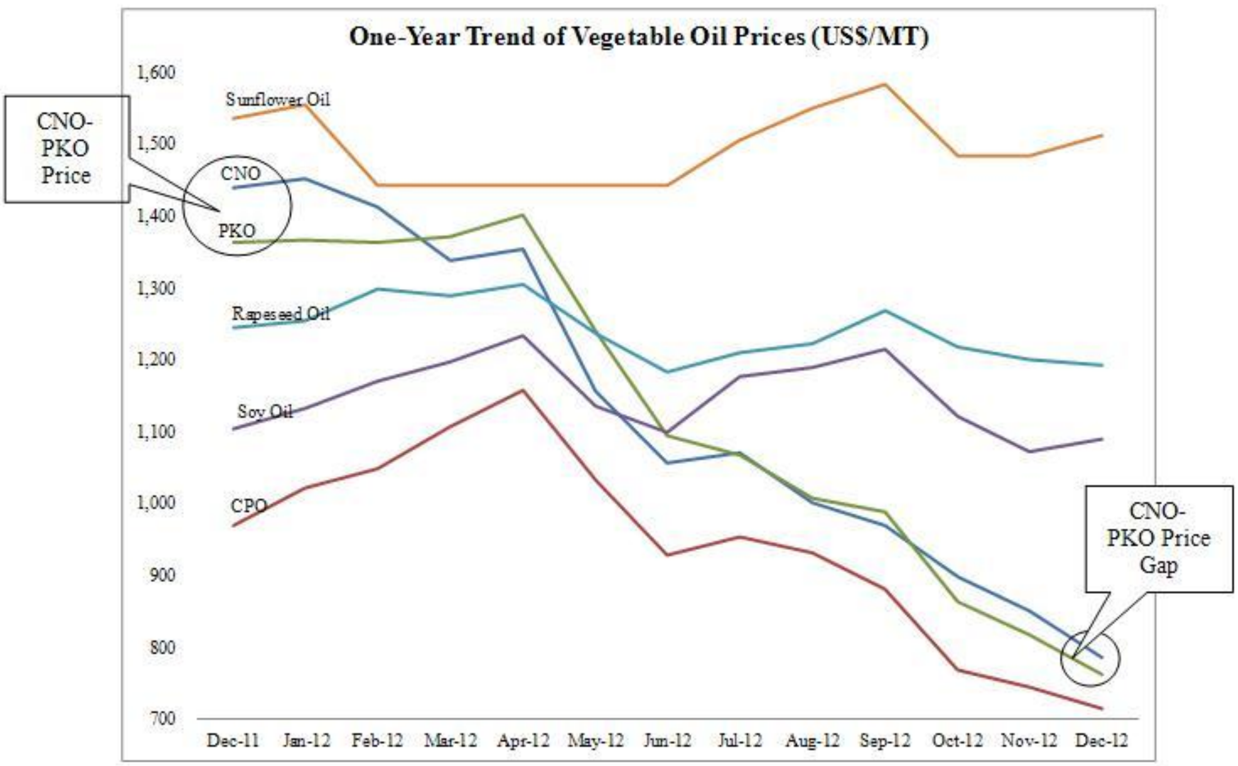
**Trade**

Indonesia's palm oil export increased significantly to 18.5 MMT in MY 2011/2012, a 12 percent over the previous MY. Year-to-date export data by destination country shows that Indonesia’s CPO export levels grew to both in major and secondary markets in 2012. Furthermore, Indonesia’s CPO exports to European Union countries increased by 20 percent in 2012 due to palm oils more competitive prices over rapeseed and sunflower oil.

| Destination Country | January to October (MT) | | |
|---|---|---|---|
| | 2011 | 2012 | Growth |
| India | 3,945,835 | 4,113,405 | 167,570 |
| China | 1,433,278 | 2,102,907 | 669,629 |
| EU27 | 1,533,794 | 1,839,363 | 305,569 |
| Malaysia | 1,140,292 | 1,198,389 | 58,097 |
| Singapore | 627,278 | 756,860 | 129,582 |
| Bangladesh | 701,505 | 645,476 | (56,029) |
| Pakistan | 190,001 | 634,158 | 444,157 |
| Egypt | 595,662 | 415,722 | (179,940) |
| Other | 2,396,325 | 3,047,409 | 651,084 |
| Total | 12,563,970 | 14,753,689 | 2,189,719 |

*Source: GTIS*

Post believes that relatively cheaper tropical palm oil prices compared to that of sub-tropical oils in the last one-year is a key factor that drives stronger global demand for palm oil products in MY 2011/2012.




*Source: index mundi*

As noted in the chart, prices for sub-tropical oils such as rapeseed, soy, and sunflower oil were persistently above $1,000/MT in 2012. On the contrary, tropical oil prices to include coconut oil (CNO), palm kernel oil (PKO), and CPO declined to under $800/MT in as of December 2012.

The above chart also suggests interesting trends vis-à-vis PKO and CNO. While those oils can be used interchangeably, CNO prices are historically higher than PKO prices. The CNO-PKO price gap narrowed from $85/MT to $23/MT last year. This phenomenon explains a significant increase in Indonesia's CNO exports, from 572,388 MT in MY 2010/2011 to 831,297 MT in MY 2011/2012. By contrast, Indonesia's PKO exports declined slightly from 1.47 MMT in MY 2010/2011 to 1.45 MMT in MY 2011/2012.

Should CPO prices remain at current levels this MY, it is possible for Indonesia to reach 20 MMT of palm oil export in MY 2012/2013. However, Post currently prefers to maintain its initial export estimates of 19.6 MMT of palm oil due to the following factors:

1. *The Malaysian Factor*
   Indonesia will face tougher competition from Malaysian palm oil products due to the implementation of new export tax policy. As of January 2013, Malaysia cut its CPO export tax from 0.7-22.7 percent to 4.5-8.5 percent effective as of January 2013.

2. *The Indian factor*
   India raised its import duties on RBD olein from Indonesia as a reaction to Indonesia's new palm oil export tax, which was implemented as of September 2011. The new export tax makes Indonesia's palm oil refined products cheaper compared to the ones that are domestically produced in India.

3. *The European Factor*
   Europe is expected to implement more restrictive measures on palm oil and palm oil-based biodiesel from Malaysia and Indonesia, to include:
   - The inclusion of Indirect Land Use Changes (ILUC) as one of sustainability criterions
   - More stringent palm oil labeling requirement, and
   - A 300 percent increase in palm oil import duty in France.

4. *The Chinese Factor*
   China is expected to announce higher quality specifications for RBD olein in January 2013. Post expects three possible outcomes as a result of China's new quality standards for palm oil. These include:
   - China will import more CPO and/or crude olein to be domestically refined.
   - China will import more polished RBD olein
   - China will import more fractioned RBD palm oil

**Ending Stock**

Post revises its palm oil's ending stock estimates from nearly 2.1 MMT as written in November 2012 update to 1.42 MMT in MY 2011/2012. Ending stocks are expected to reach 1.95 MMT in MY 2012/2013.

**Program and Policy**

Following the reduction in export duties on CPO and its products by the Government of Malaysia in January 2013, Indonesian Palm Oil Association (GAPKI) has urged the GOI to lower a currently enforced Indonesian palm oil export duty. GAPKI emphasizes that lower export duties are necessary to keep Indonesian palm oil as competitive as that of Malaysia. The GOI is reviewing GAPKI's proposal, although some within the GOI argue that this policy shift will come at the expense of any progress made in forcing the development of downstream processing in Indonesia.

| Oil, Palm Indonesia | 2010/ 2011 | | 2011/ 2012 | | 2012/2013 | | |
|---|---|---|---|---|---|---|---|
| | Market Year Begin: Oct 2010 | | Market Year Begin: Oct 2011 | | Market Year Begin: Oct 2012 | | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Planted | 0 | 0 | 0 | 0 | 0 | 0 | (1000 HA) |
| Area Harvested | 0 | 6,650 | 0 | 7,135 | 0 | 7,584 | (1000 HA) |
| Trees | 0 | 997,500 | 0 | 1,070,250 | 0 | 1,137,600 | (1000 TREES) |
| Beginning Stocks | 39 | 242 | 895 | 1,097 | 1,449 | 1,416 | (1000 MT) |
| Production | 23,600 | 23,600 | 25,900 | 25,900 | 28,000 | 28,000 | (1000 MT) |
| MY Imports | 23 | 23 | 35 | 1 | 20 | 1 | (1000 MT) |
| MY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| MY Imp. from EU | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Supply | 23,662 | 23,865 | 26,830 | 26,998 | 29,469 | 29,417 | (1000 MT) |
| MY Exports | 16,422 | 16,423 | 18,252 | 18,453 | 19,600 | 19,600 | (1000 MT) |
| MY Exp. to EU | 4,100 | 2,133 | 4,500 | 2,335 | 4,500 | 2,500 | (1000 MT) |
| Industrial Dom. Cons. | 1,700 | 1,700 | 2,211 | 2,211 | 2,493 | 2,493 | (1000 MT) |
| Food Use Dom. Cons. | 4,475 | 4,475 | 4,702 | 4,702 | 5,150 | 5,150 | (1000 MT) |
| Feed Waste Dom. Cons. | 170 | 170 | 216 | 216 | 227 | 227 | (1000 MT) |
| Total Dom. Cons. | 6,345 | 6,345 | 7,129 | 7,129 | 7,870 | 7,870 | (1000 MT) |
| Ending Stocks | 895 | 1,097 | 1,449 | 1,416 | 1,999 | 1,947 | (1000 MT) |
| Total Distribution | 23,662 | 23,865 | 26,830 | 26,998 | 29,469 | 29,417 | (1000 MT) |
| CY Imports | 23 | 25 | 35 | 1 | 35 | 40 | (1000 MT) |
| CY Imp. from U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| CY Exports | 16,436 | 16,436 | 17,975 | 18,325 | 18,500 | 18,850 | (1000 MT) |
| CY Exp. to U.S. | 0 | 48 | 0 | 50 | 0 | 55 | (1000 MT) |
| TS=TD | | 0 | | 0 | | 0 | |
| Comments | | | | | | | |
| AGR Number | | | | | | | |
| Comments To Post | | | | | | | |

Oilseed, Soybean

**Production**
Indonesian soybean production dropped from 650,000 MT in MY 2010/2011 to 620,000 MT in MY 2011/2012. The four-year trend in harvested area suggests a further decline in soybean production may occur in MY 2012/2013. Decreased levels of production also triggered the MOA to revise their own 2013 production targets from 2.2 MMT to 1.5 MMT.

Post estimates Indonesian soybean production at 620,000 MT in MY 2012/2013. However, due to the factors noted below, Post may change production estimates in future updates, pending possible GOI policy initiatives. The most significant of these policy initiatives is that the GOI recently indicated that it will set farm gate prices (FGP) for soybeans at levels that allow farmers to earn enough profit from soy production. From the farmers' perspective, the ideal FGP is 7,000 - 7,500 rupiah/kilogram. Furthermore, it will be a mandatory for the National Logistics Agency (BULOG) to purchase local soybeans at FGP. This measure (FGP and BULOG's mandatory local soybean purchase) may become effective as soon as February 2013. Should this become mandatory, farmers will likely have greater incentive to grow more soybeans due to certainties in the selling price and BULOG as a guaranteed buyer.

**Consumption**

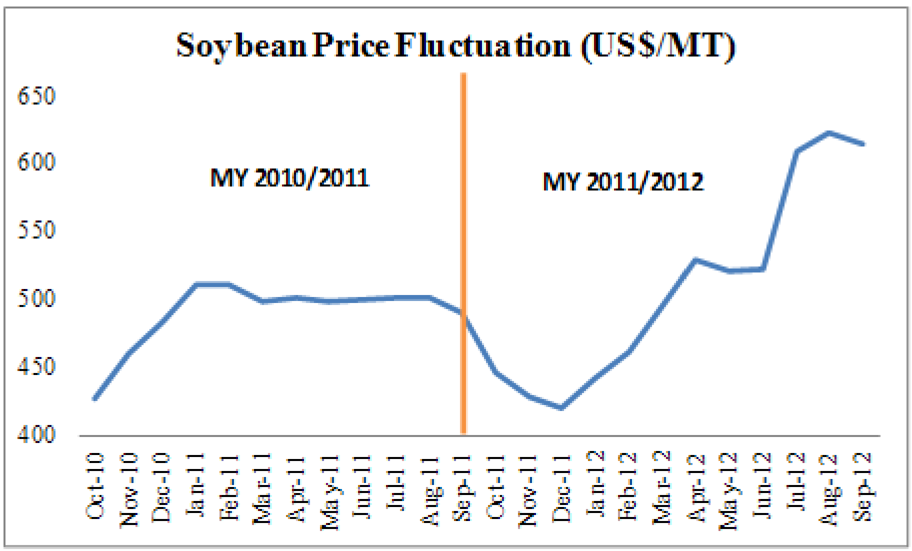
Tempe and tofu makers remain the largest soybean end users in Indonesia. They account for 88 percent of total domestic users of soybeans. Post expects Indonesia will consume 2.63 MMT soybeans in MY 2012/2013, a 2.7 percent increase over the previous MY.

**Trade**

Indonesian soybean imports were 1.922 MMT in MY 2011/2012, a slight increase of 1.26 percent. Post predicts that levels of Indonesian imports will increase to 2 MMT in MY 2012/2013 as consumer demand for tempe and tofu continues to increase and domestic production trends downward. However, should the previously mentioned policy measures be enforced, local production may be higher than what is currently expected.

**Ending Stocks**

While soybean imports increase to 1.922 MMT in MY 2011/2012 over 1.898 MMT the previous marketing year (1.26 percent), ending stocks declined from 68,000 MT to 50,000 MT in the same period. Although lower production and higher consumption should encourage importers in MY 2011/2012, importers are cautious with regard to holding high levels of stocks following price volatility in MY 2011/2012.




*Source: CBOT*

Soybean ending stocks are predicted to further decline to 40,000 MT in MY 2012/2013 due to possible price volatility this year. If BULOG takes a more activist role in setting domestic soybean prices, Post expects that soybean stocks could reach 156,000 – 182,000 MT in current marketing year. As a price stabilizer, BULOG is required to maintain soybean stocks at 6-7 percent of total domestic consumption.

**Program and Policy**

The GOI raised its import duty on soybean from zero to five percent effective per January 1st, 2013. The current Chairman of the Indonesian Soybean Council, Benny Kusbini, argues that a five percent import duty on soybeans is insufficient and advocates for a 20 percent duty on soybean imports. He actively lobbies the GOI to increase its applied duties to imported soybeans. Moreover, he advocates that the money collected from the higher duties be used to subsidize Tempe and tofu makers and to push them to purchase local soybeans. Mr. Kusbini believes that this method will be an effective way to boost domestic soybean production in the absence of any direct fiscal support from the GOI.

| Oilseed, Soybean Indonesia | 2010/2011 | | 2011/2012 | | 2012/2013 | | |
|---|---|---|---|---|---|---|---|
| | Market Year Begin: Oct 2010 | | Market Year Begin: Oct 2011 | | Market Year Begin: Oct 2012 | | |
| | USDA Official | New Post | USDA Official | New Post | USDA Official | New Post | |
| Area Planted | 550 | 550 | 550 | 530 | 550 | 540 | (1000 HA) |
| Area Harvested | 470 | 470 | 450 | 450 | 450 | 435 | (1000 HA) |
| Beginning Stocks | 70 | 70 | 68 | 68 | 51 | 50 | (1000 MT) |
| Production | 650 | 650 | 620 | 620 | 620 | 620 | (1000 MT) |
| MY Imports | 1,898 | 1,898 | 1,922 | 1,922 | 2,000 | 2,000 | (1000 MT) |
| MY Imp. from U.S. | 1,695 | 1,695 | 1,725 | 1,756 | 1,850 | 1,830 | (1000 MT) |
| MY Imp. from EU | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Total Supply | 2,618 | 2,618 | 2,610 | 2,610 | 2,671 | 2,670 | (1000 MT) |
| MY Exports | 0 | 0 | 1 | 0 | 1 | 0 | (1000 MT) |
| MY Exp. to EU | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Crush | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| Food Use Dom. Cons. | 2,475 | 2,475 | 2,512 | 2,512 | 2,600 | 2,600 | (1000 MT) |
| Feed Waste Dom. Cons. | 75 | 75 | 46 | 50 | 29 | 30 | (1000 MT) |
| Total Dom. Cons. | 2,550 | 2,550 | 2,558 | 2,560 | 2,629 | 2,630 | (1000 MT) |
| Ending Stocks | 68 | 68 | 51 | 50 | 41 | 40 | (1000 MT) |
| Total Distribution | 2,618 | 2,618 | 2,610 | 2,610 | 2,671 | 2,670 | (1000 MT) |
| CY Imports | 2,089 | 2,088 | 1,950 | 1,900 | 2,000 | 2,000 | (1000 MT) |
| CY Imp. from U.S. | 1,848 | 1,845 | 1,725 | 1,725 | 1,750 | 1,830 | (1000 MT) |
| CY Exports | 1 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| CY Exp. to U.S. | 0 | 0 | 0 | 0 | 0 | 0 | (1000 MT) |
| TS=TD | | 0 | | 0 | | 0 | |
| Comments | | | | | | | |
| AGR Number | | | | | | | |
| Comments To Post | | | | | | | |